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SUBJECT: PARLIAMENT FINALLY PASSES ICESAVE

REF: Reykjavik 227

¶1. (U) After months of debate, Iceland's parliament passed the
Icesave bill late in the evening of December 30 by a vote of 33 to
¶30. Passage of the bill allows the government to provide a state
guarantee for the Depositors' and Investors' Guarantee Fund's
repayment of up to $5.5 billion to the British and Dutch governments
for loans covering losses by their depositors as a result of the
October 2008 Icelandic banking collapse. The opposition voted
uniformly against the bill while most members of the coalition
government supported the measure. Only two members of the
coalition, Lilja Mosesdottir and Ogmundur Jonasson, broke ranks and
voted against the bill. The one independent in the parliament,
Thrainn Bertelsson, voted in favor of the Icesave bill. The
president now has two weeks to sign the bill into law.

¶2. (U) Steingrimur J. Sigfusson, the leader of the Left Green Party,
hailed the vote as an important step in Iceland's economic recovery.
 "It is my firm belief and conviction," he said, "that the new year
will bring economic recovery." The opposition, on the other hand,
feels that this decision will saddle the Icelandic people with
crippling debts for generations to come. The leader of the
Independence Party, Bjarni Benediktsson, said that "by passing this
bill, the Icelandic government (the coalition government of the
Social Democrats and the Left Greens) wants to make the debts of
private banks the debts of the Icelandic public without taking the
issue to court."

¶3. (U) This is the second time that Iceland's parliament has voted
on the Icesave agreement this year. In its first iteration, which
passed in August, parliament added significant amendments to the
original agreement signed with the British and Dutch governments in
March. Those two governments found the amended version of the
agreement to be unsatisfactory. Renegotiations forged a new
agreement that the Icelandic Parliament officially accepted in the
December 30 vote.

¶4. (U) The opposition tried to amend this bill to require a general
referendum to be held on the issue within six weeks. The proposed
amendment was struck down by the same 33-30 margin of the bill. The
President, Olafur Ragnar Grimsson, has two weeks to sign the bill
into law and has stated that he intends to examine the matter
closely before making a final decision. He said that he cannot
ignore the large percentage of Icelandic voters (more than 45,000)
who signed a petition asking him not to sign the bill in order to
force the matter to go to a national referendum. President Grimsson
plans to honor his promise to the leaders of the group that
organized the petition, InDefence, and meet with them before making
a final decision.

¶5. (SBU) Comment: Assuming the President signs the Icesave bill
into law, it will be a significant step for Iceland because it opens
the door for economic recovery and allows economic policymakers to
look forward rather than backward. This step ensures that the IMF

program and Nordic loans will continue and allows the government to direct its limited resources towards other pressing matters. The decision is largely unpopular with the general public and even those Icelanders who supported the agreement felt the nation had been backed into a corner. The matter sparked unrest and, at least on one occasion several months ago, threatened to topple the government. At this point, the coalition seems adequately cohesive to continue. Although the issue has been resolved in parliament, the wounds created by the Icesave controversy will likely heal slowly and affect the country for years to come. End comment.
WATSON